



Agenda Date: 3/16/06
Agenda Item: IVC

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE PETITION OF
CAVALIER TELEPHONE CORPORATION,
CAVALIER TELEPHONE MID-ATLANTIC,
LLC, AND ELANTIC TELECOM, INC. FOR)
APPROVAL OF REFINANCING AND)
RELATED TRANSACTIONS)

TELECOMMUNICATIONS

ORDER

DOCKET NO. TF06020107

(SERVICE LIST ATTACHED)

BY THE BOARD:

On February 17, 2006, Cavalier Telephone Corporation ("CTC"), Cavalier Telephone Mid-Atlantic, LLC ("Cavalier"), and Elantic Telecom, Inc. ("Elantic") (collectively, "Petitioners"), filed a Verified Petition with the New Jersey Board of Public Utilities ("Board") pursuant to N.J.S.A. 48:3-7 and N.J.S.A. 48:3-9 requesting approval of a planned refinancing and related transactions whereby a wholly owned subsidiary of CTC ("Holdings") will be formed to accomplish the financing, and Cavalier and Elantic would pledge their assets and become guarantors of Holdings' loan from a syndication of lenders in the amount of approximately \$185 million pursuant to a senior secured term loan facility to be repaid over six years ("Term Loan Facility") and up to \$20 million pursuant to a senior secured revolving credit facility which will not be drawn at closing ("Revolving Credit Facility"). Petitioners requested that the Board act on this matter on an expedited basis so that CTC may complete the refinancing of its existing debt before it is required to make substantial principal and interest payments due March 31, 2006.

BACKGROUND

CTC is a privately-held Delaware corporation with its headquarters in Richmond, Virginia. CTC is a holding company and does not hold any operating certificates. CTC, through its subsidiaries, provides local telephone service, digital subscriber line and related telephone and data services in Pennsylvania, Virginia, Maryland, Delaware, District of Columbia and New Jersey, among other states. CTC's wholly owned subsidiaries include Cavalier Telephone, LLC, which in turn owns Cavalier, and Elantic Networks, Inc., which in turn owns Elantic.

Cavalier is a Delaware limited liability company with its headquarters in Richmond, Virginia and its primary regional office in Warminster, Pennsylvania. Cavalier holds domestic and foreign authorizations from the Federal Communications Commission ("FCC"), and is authorized to act as a common carrier and reseller, and to provide facilities-based local exchange, exchange

access and interexchange telecommunications services to customers in New Jersey pursuant to the Board's September 27, 2001 Order, I/M/O the Petition for An Order Authorizing Cavalier Telephone Mid-Atlantic, LLC to Provide Local Exchange Telecommunications Services Throughout New Jersey, Docket No. TE01060370.

Elantic is a Virginia corporation with its headquarters in Richmond, Virginia. Elantic holds domestic and foreign authorizations from the FCC, and is authorized to act as a common carrier and reseller of telephone services, and to provide facilities-based local exchange and interexchange telecommunications services to customers in New Jersey pursuant to Board authority originally granted to Dominion Telecom, Inc. on October 6, 2002, I/M/O The Petition for an Order Authorizing Dominion Telecom, Inc. to Provide Local Exchange Telecommunications Services Throughout New Jersey, Docket No. TE01090594, which was later transferred to Elantic by Board Order of May 12, 2004, I/M/O The Joint Petition of Dominion Telecom Inc., Dominion Fiber Ventures, LLC and Elantic Networks, Inc. for Approval of a Change in Control, Docket No. TM04030191.

In the proposed transactions, CTC will place Holdings, CTC's wholly owned Delaware Limited Liability company, as an intermediate subsidiary residing several corporate tiers above Cavalier and Elantic, in order to act as the vehicle for the planned refinancing. Petitioners further seek approval to pledge their assets and ownership interests¹ and act as guarantors and otherwise participate with respect to Holdings borrowing of approximately \$185 million under the Term Loan Facility and \$20 million under the Revolving Credit Facility (collectively, the "Financing Transactions"). The Term Loan Facility matures in 2012, and has a current interest rate of 5% plus LIBOR, and the Revolving Credit Facility has an interest rate of 4% plus LIBOR. The Borrower may select interest period of one, two, three and six months for LIBOR borrowings. Petitioners point to CTC's demonstrated history of growth, revenues, profitability, and current investor debt rating in support of the ability to service the debt.

Petitioners indicate that CTC and Holdings will beneficially use the proceeds for several purposes, including the pay-off of all existing CTC debt (approximately \$70 million). Petitioners state this refinancing will provide it with much greater financial flexibility, and eliminate significant amortization payments commencing on March 31, 2006 under current debt, including, in addition to interest, a payment of 7% of principal on March 31, 2006, followed by regular payments of principal concluding with a final September 30, 2007 "bullet" payment of 49.5% of principal. Petitioners state they will also use the proceeds for the buy back from and payment of approximately \$103 million to holders of preferred CTC stock, and the buyback of approximately \$17 million in common stock held by several founders of CTC. Petitioners state the buy back of preferred stock will remove a significant fixed cost of capital from CTC's books.

Petitioners state that the financing transactions, by providing them with greater, more flexible access to capital markets meeting their financial needs as a growing company, will support the company's continued growth and competitive efforts, and will improve telecommunications competition in New Jersey and ultimately result in greater availability of service choices at competitive prices for New Jersey consumers. Petitioners submit that the transactions will not result in changes in the existing rates, terms or conditions under which Cavalier and Elantic

¹ CTC will pledge its ownership interest in Holdings, Holdings will pledge its ownership interests in each of the operating subsidiaries, and Cavalier, Elantic and all other CTC subsidiaries will pledge their ownership interests in their own assets.

provide service to their customers in New Jersey, nor will it result in a change in the identities of Cavalier and Elantic or their business management, and will therefore be transparent to and will have no adverse impact on New Jersey customers.

In response to a Staff request for additional information, Petitioners provided a schedule of the use of proceeds, a term sheet for the Financing Transactions, capitalization information, information on New Jersey customers, and other information.

On March 1, 2006, the Division of Ratepayer Advocate submitted a letter to the Board recommending that the Board approve the petition.

FINDINGS AND CONCLUSION

Based on the foregoing and after review of the Petition and related documents, the Board FINDS with regard to the Petitioners' proposed Financing Transactions, including the entry into the Term Loan Facility and Revolving Credit Facility, and the guarantees of the loan and pledges of assets and ownership interests as security, that such actions will promote a lawful objective within the corporate purposes of Petitioners. The Board further FINDS that the corporate restructuring creating a CTC subsidiary to accomplish the foregoing financing, which is *pro forma* in nature, will not have any negative impact on service quality to New Jersey customers or the rates they pay, or on competition or employees. Therefore, the Board HEREBY APPROVES and AUTHORIZES the financing arrangements, including the Term Loan Facility and Revolving Credit Facility and related agreements, and the creation of Holdings and the resulting corporate reorganization to accomplish the financing, as set forth in the Petition dated February 17, 2006. The Board also APPROVES and AUTHORIZES Cavalier and Elantic to pledge their assets and ownership interests and to act as guarantors of the financing arrangements described in the Petition and to execute appropriate documents in order to do so. Finally, the Board AUTHORIZES Petitioners to take further actions consistent with or required by the financing arrangements or related agreements.


This Order is issued subject to the following provisions:

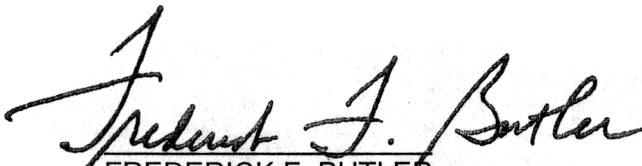
1. Petitioners shall notify the Board, within five business days, of any material changes in the terms of the loan, and shall provide complete details of such transactions including any anticipated effects upon service in New Jersey.
2. Petitioners shall notify the Board of any material default on the terms of the loan within five business days of such occurrence.
3. Petitioner shall semi-annually file with the Board a statement setting forth: (a) the amount of indebtedness issued under this Order, and (b) the extent to, and in detail, the manner in which the proceeds thereof have been disbursed pursuant to N.J.A.C. 14:1-5.9 (b).

- 4 This Order shall not affect nor in any way limit the exercise of the authority of this Board or of this State in any future petition or in any proceedings with respect to rates, franchises, services, financing, accounting, capitalization, depreciation, or any other matters affecting the Petitioner.
- 5 This Order shall not be construed as directly or indirectly fixing for any purpose whatsoever any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.
- 6 Petitioner shall notify the Board of the closing of the proposed transaction promptly upon consummation.
- 7 Notwithstanding anything to the contrary in the documents executed pursuant to the financing transactions or other supporting documents, a default or assignment under such agreement shall not constitute automatic transfer of Petitioner's assets. Board approval must be sought pursuant to N.J.S.A. 48:3-7 et seq. where applicable.

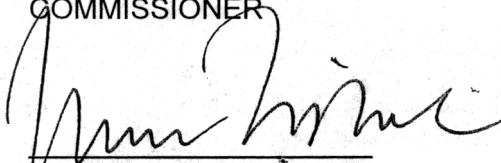
DATED: 3/22/06

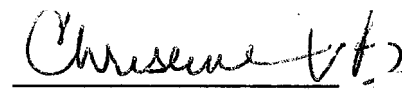
BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

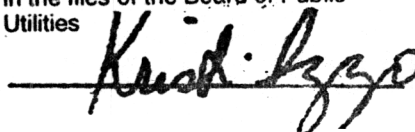

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



SERVICE LIST

In the Matter of the Petition of Cavalier Telephone Corporation, Cavalier Telephone Mid-Atlantic, LLC, and Elantic Telecom, Inc. for Approval of Refinancing and Related Transactions

Docket No. TF06020107

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